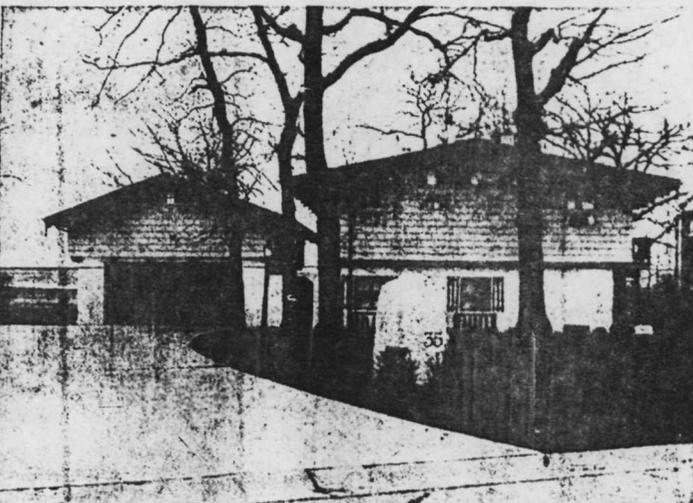


MAY 9, 1973



Children play outside abandoned Gilbert Balin building at 1411 S. Tripp Av. The profitability of slum ownership is reflected in the Balin home at 35 Sheffield Rd., Oak Brook.

Slumlord guide — 8 steps to profit

IT CAN'T BE found on the dining room tables in investment houses or on the shelves of bookstores.

Financial columnists don't write about it, and those few people in the mortgage business who know it exists don't talk about it.

It is the manual for slumlords—an unwritten, untold scenario on how to buy seemingly worthless slums for peanuts and squeeze them for big money.

It tells how to get out from under that gainfully \$30,000 mortgage for just \$3,000, or how to turn a \$1,500 slum into a \$60,000 windfall.

THE MANUAL has a chapter on the contract buyer, and one on the tenant. It has sections dealing with mortgage houses, the courts, prosecution by the federal government, and almost everyone who has money to lose.

Tribune Task Force reporters were able to reconstruct the slumlord's manual for the first time after poring for four months over thousands of legal documents, financial re-

Task Force report

The Tribune's Pulitzer Prize-winning Task Force spent four months investigating the city's Top Ten Slumlords. In this article, the fourth in a series, the Task Force shows how money can be made on seemingly worthless buildings. The series was prepared and written by David Young, Task Force director, and reporters Pamela Zekman, Jerry Thornton, and Robert Unger.

records, and statements by slumlords.

Two there are a multitude of ways to milk slum property, the most complex is an eight-step process which works this way:

- One slumlord buys a building in a deteriorating neighborhood, usually at a low price because the bottom has dropped out of the housing market.
- The slumlord then mortgages the property for more than it is worth to generate cash.
- A contract buyer is lined up and sold the building for handsome profit—handsome for the slumlord.
- The slumlord then de-

faults on the mortgage, allowing the mortgagee to take it back, usually after the contract buyer either is forced out or leaves.

● Another slumlord approaches the panicked mortgagee and buys the building for a fraction of the mortgage value.

● To get a maximum return on a minimum investment, the slumlord collects rent but doesn't make repairs or pay taxes or utility bills.

● Sometimes, a quick profit can be made by remortgaging the now nearly worthless slum.

● Finally, when the building has reached the end of the-line

—when the law closes in and the tenants move out in disgust—one last financial killing can be made with the fire insurance policy.

POSSIBLY THE largest single victim of the slumlord has been the federal government. On the West Side alone, the slumlords have gouged federal agencies for years.

Examination of the records of the Federal Savings and Loan Insurance Corporation (FSLIC) shows that a small group of slumlords gouged that agency on delinquent mortgages on scores of slum buildings. FSLIC insures savings and loan depositories.

In effect, the slumlords used the federal agency as a conduit to strip buildings of mortgages. FSLIC became a victim when the slumlords dumped hundreds of overmortgaged buildings on it or various savings and loan institutions during the 1960s, then bought back many of the buildings from it at rock-bottom prices.

Other victims of the West Side slumlords include several savings and loan associations, hundreds of contract buyers, a mortgage company, a life insurance company, and many fire insurance firms. Cases in point:

● A major factor in the demise of First Mutual Savings Association in 1967 was that it was used for a dumping ground by slumlords for hundreds of thousands of dollars in mortgages.

● Cattleman's Life Insurance Company of Austin, Tex., which issued more than \$250,000 in mortgages for 17 West Side slums—some of which are now vacant lots and charred shells—went into receivership last year. One of the buildings on which Cattleman's issued a \$14,000 mortgage was appraised by a federal agency at less than half that.

● Examination of one slumlord's financial records show he sold different contract buy-

ers at different prices. Continued on page 8, col. 1

Bill is blasted, praised

By David Gilbert

Chicago Tribune Press Service
SPRINGFIELD, Ill., May 8—A bill establishing a state lottery passed the House today in a sweepstakes atmosphere.

As lawmakers were voting on the controversial issue, they were conducting a lottery of their own on the House floor, betting on how many votes the bill would receive.

Rep. Rottand Tipword (D., Taylorville) hit the jackpot and walked off the floor \$72 richer when the final vote was announced, 112 to 56.

DURING HEATED debate, the proposed lottery was assailed as "a cancer to society" and praised as "a godsend to education."

"There will be no hoodlum infiltration, there will be no syndicate infiltration," said Rep. E. J. (Zeke) Giorgi (D., Rockford), the bill's sponsor.

Giorgi said the lottery, which would be based on selling 50-cent tickets, would be expected to produce \$100 million annually.

THE \$100 MILLION would be split up with \$45 million going to the state common school fund, \$45 million for prizes, and \$10 million for operation, he said.

"If you want to eliminate the [illegal] numbers racket, get on the street with a legal 50-cent lottery ticket," said Minority Leader Clyde Choate (D., Anna).

But other representatives did not see it that way.

"IT WILL CAUSE decay... dry rot in the timbers of government," said Rep. George Ray Hudson (R., Hinsdale).

"It's the old shell game, it thrives on suckers," said Rep. Robert Day (R., Peoria). Giorgi said the lottery bill, which now goes to the Senate, was based on lotteries now operating successfully in six other states.

The lottery would be controlled by a five-member commission appointed by the governor.



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EXHIBIT 'E' (14)

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Inside

Changing times in comic books

Lois Lane has a black roommate, wears a mini-skirt — and sometimes comes to the rescue of



Daley orders for city pa

By Edward Schreiber

MAYOR DALEY said yesterday that he has ordered the

Al

A manual for slumlords—8 steps to profit from squalor

Continued from page one

20 buildings for \$489,000. had paid only \$238,000 for buildings.

Slumlord Gilbert Ballin bought a slum for \$2,000 within three months sold a interest in it to a 69-year-old widow for \$7,500.

THE NORTH Lawndale section of the West Side is where slumlords made their big killing. That was where Mutual Savings Association had many of its mort-

exploitation of First Mutual began in the late 1950s. Lou Fushanis, possibly the biggest slumlord in the city's history, began buying buildings in Lawndale, Illinois, to Edward Arkema, dying for his estate, he obtain a mortgage for more money than the building worth, then use the extra to buy another building, and then turn around and sell many of the buildings for fat profits.

of Fushanis' major firm was Moe Forman, a with offices at 77 W. 63rd St. After Fushanis' 1963, Forman filed a against his estate for —including \$124,000 in checks and \$60,000 in cash. The two men had lived in a slum entered F & F Investment

STATE RECORDS also that Fushanis was a in various deals with Wolf, another slumlord operates under several names and a platoon of s. Lawndale continued to be during the 1960s, administrators of Fushanis and Forman began their over-mortgaged slum on First Mutual. re they did, Probate court Jerome Dunne appraisals on most of the buildings.

appraisal, for example, the value of 14 at \$52,000—about \$3,000. However, First Mutual mortgages on the buildings with a balance of \$88,000. At the time, the contract buy more than \$220,000 buildings, even though they poured \$47,500 in them.

Berland, a personal friend and associate of Wolf and partner of Ballin in several buildings. Berland claimed in a Federal Court deposition that he took over an estimated 60 slums at the request of First Mutual President Austin Waldron. The buildings later were dumped, many of them on FSLIC, when they became unprofitable.

"These 60 buildings [Waldron] asked me to take over from him and repair them and he would cut them down and everything and help me out," Berland said. "Then he went under and I was stuck with the high mortgages. I just walked away from the whole thing."

FSLIC RECORDS show that Berland walked away from about 20 mortgages which ultimately wound up on the hands of the government corporation.

As a result of all the bad mortgages, federal officials stepped in and in 1968 merged First Mutual with Bell Federal Savings and Loan Association. The move prevented another in the rash of savings and loan failures which was plaguing the industry at that time.

However, Bell refused to take over 659 of First Mutual's more than 2,100 mortgages—\$7.8 million worth. They wound up in the hands of FSLIC as part of the merger deal.

One official in the industry explained that these mortgages had been sold to "scavengers" by Waldron in a desperate effort to keep First Mutual going after Lawndale began to deteriorate.

"WHY DID the federal government let these people run so long?" the official asked. "They [FSLIC] had examiners in there. They knew what was happening!"

Whether or not FSLIC knew what was happening, it became the next target. FSLIC soon found Wolf pounding at the door with money in his hand. The federal agency promptly obliged by selling the buildings at rock-bottom prices.

For example, FSLIC inherited a \$34,000 defaulted Fushanis mortgage on 3626-26 W. Lexington Av. and promptly sold it to Wolf for \$3,500.

On 3508 W. Flournoy St., another Fushanis property, FSLIC took a \$30,000 loss by selling the building to Wolf's



Tribune Photo by William Yates

The profits reaped by slum owners have long ago attracted the attention of the Internal Revenue Service. Attorney Victor Spector, an associate of slumlord Gilbert Ballin, was charged with income tax evasion in 1961, and pleaded guilty.

to Herman Zucker for \$1,500, absorbing a \$6,000 loss. Zucker is Ballin's partner and nominee on many buildings.

THE FEDERAL agency's officials said they were unaware of Zucker's relationship with Ballin. Ballin is Berland's partner in many buildings, and Berland is an associate of Wolf—Berke's brother in law.

"Our general policy is not to deal with the people who created the problems," said Thomas P. Sughrus, head of FSLIC's Chicago office. "Either we sold these properties to someone with the cash to buy on an as-is basis, or we had to pay for the cost of demolition and carry vacant land on our books."

"If we had known these people were working together, we would never have sold to them. But how in hell can you tell one guy's nominee from another?"

FSLIC records show that in 1968, it had \$756,920 in delinquent mortgages owed by Berke; \$280,000 owed by Berland; \$502,323 owed by Forman's F & F Investments; \$22,945 owed by Forman himself; and \$341,658 owed by the Fushanis estate—a total of more than \$1.8 million. Today, only about \$126,000 in their mortgages are still on FSLIC's book.

Lawndale organized and filed a Federal Court suit to force renegotiation of their contracts.

VICTOR SPECTOR, an associate of Ballin, was one of the defendants.

"Spector bought a building at 3932 W. Congress St. from a white family for \$15,000 and in that same week sold it to a black buyer for \$24,500 on contract," said Clyde Ross, vice president of the Contract Buyers League.

"It's not hard to make a \$10,000 profit in a week."

That kind of profit has for years interested the Internal Revenue Service, which has been attempting to nail some of the city's big slumlords who trade in hundreds of thousands of dollars in real estate but claim little or no taxable income.

IRS has caught a few. In 1961, Spector was charged with evading \$73,722 in personal income taxes between 1954 and 1956. He pleaded guilty. IRS tax liens totaling \$88,350 have been filed against Wolf for the years 1960 thru 1969.

SOME IDEA of the money which can be made off slums is available in various legal documents relating to Moe Forman. Besides the \$194,000 Forman collected off the Fushanis estate in 1965, records of F&F Investment Company in

1971 citing six code violations on 811 W. Eastwood Av., and earlier this year citing 21 violations against the Belmont building.

Timothy O'Hara, assistant corporation counsel in charge of prosecuting housing suits, explained that one way for slumlords to milk a building is to skimp on taxes and repairs.

The cost factor [maintenance and taxes] of a building is approximately 50 per cent of its income, he said.

"If you're not making repairs or paying taxes, you are making 100 per cent profit."

O'Hara also believes that the heyday of the big slumlord has passed, because there is no longer a big profit to be made.

"IT'S A QUESTION of economics. With some exceptions, the operation of slum buildings is not a profitable venture. If it was terribly profitable, you wouldn't hear of all the abandoned buildings. You don't often find an abandoned gold mine," he said.

Most urbanologists and Housing Court judges agree

Slumlord ducks parley

MAX GUTMAN, one of three brothers who run an Uptown slum empire, left 20 tenants and community activists waiting in vain last night for him to sign an agreement to clean up his worst building.

Gutman had agreed to meet with the Uptown-Edgewater Building Task Force after repeated complaints about conditions in a 24-unit, 3-story slum at 4107 N. Broadway. As disclosed in a Tribune Task Force series, seven children suffered from lead poisoning in the building from 1969 thru 1972, four of them after a court ordered the removal of painted-over wallpaper.

THE AGREEMENT would have called for Gutman to remove hazards in the building and to bring it into compliance with building codes. The Gutman earlier had indicated he would sign the agreement, he told tenants in the building earlier last night that "the meeting has been called off."

Phil Gutierrez, spokesman for the community group, said he believed Gutman was reluctant to face the meeting after Tribune disclosures Tuesday documented slum conditions in the building and reported Gutman's statement that "Ethics is for you guys [reporters]." The meeting was scheduled for St. Mary of the Lake Church, 4200 N. Sheridan Rd.

with him on that point, but abandoned building can be fire insurance industry off, turned into a \$60,000 windfall.

They know that even as insurance industry fights back.

Store Hours Downtown: Monday and Thursday, 9:15 to 7:00; Tuesday, Wednesday, Friday and Saturday, 9:15 to 3:45

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